Phillip Longman

AGE WARS

The Coming Battle Between Young and Old

Current economic trends and fiscal policies forebode a future of generational wars.

Foster grandparent plays with child. The opportunity for prosperity is increasingly being denied today's youngest generations by fiscal policies that borrow against the future, says author Phillip Longman. ACTION

Americans have always been an exceptionally optimistic people—and never more so than now. In the late 1970s, it was fashionable to question whether the country had at last entered an "era of limits," but the rallying cry these days is "America is back!" Inflation is down, employment is up, the military is strong, and energy is plentiful. This is not the season to peddle unhappy thoughts about the future of America, much less to call for sacrifice.

Yet today's prosperity is being purchased at the eventual expense of today's younger citizens and those yet unborn. As a result, the early decades of the next century may well bring a war between the generations, as tomorrow's elderly attempt to compel the young to honor the compounding debts of the present era.

The United States is now using an almost endless variety of means to distribute wealth and opportunity away from future taxpayers. After more than two decades of declining expenditures for public works, the cost of repairing the nation's dilapidated bridges, roads, waterways, and other infrastructure is conservatively estimated at more than $1 trillion.

By failing to pay for the safe disposal of toxic wastes, today's generations shove this cost on to those who follow. Similarly, by running down supplies of clean water, topsoil, energy, and other natural resources required to maintain future

production, all Americans gain a higher standard of living today but at the eventual expense of the young and future generations.

The most brazen example of how we rob future taxpayers is today's massive federal deficits. With each month that goes by, these deficits are dramatically reducing the future standard of living of today's younger Americans. Just to finance the interest charges on *this year's* deficit will cost the average citizen now entering the work force an extra $10,000 in taxes over his or her lifetime, according to a conservative estimate by the Congressional Research Service.

At prevailing interest rates, every additional dollar the government borrows will cost future taxpayers $22 in service charges over the next 30 years. With the burden of paying compounding interest charges on the ever-mounting national debt, today's young families will find it increasingly difficult to save for a new home or for their children's education—much less for their own retirement.

As long as the deficits continue, capital that could otherwise be used for rebuilding the nation's dilapidated infrastructure, for robotics, space manufacturing, education, and other productive investments is instead committed to servicing the national debt. Already, 15% of the federal budget is consumed by interest charges on previous deficits. To meet this expense, the government is borrowing still more.

The Graying of America

The true measure of how far Americans are living beyond their means is revealed not just by the magnitude of federal borrowing, nor by the other examples given above. Also to be counted in the balance is the nation's failure to save up for one of the greatest and most predictable challenges to the American standard of living in the next century: the enormous social cost of the baby-boom generation's retirement.

Comprising 75 million Americans born between 1946 and 1964, the baby boomers are now and will remain for several more decades a source of bulging cash flow for the government. The youngest baby boomers have now become adults, and most—men and women alike—are working and paying taxes. Fully 91% of all baby boomers hold down jobs—the highest percentage of any generation of Americans thus far.

Moreover, while few baby boomers are experiencing the same upward mobility enjoyed by their parents in the 1950s and 1960s, their incomes will tend to rise, along with their taxes, as they gain experience and seniority in the workplace. Finally, the baby boomers are, for the moment, both too old and too young to be entitled to many government benefits.

Chart 1

Social Security Tax

Maximum combined employer/employee Social Security tax paid annually:

1949	1972	1986	1990
$60	$936	$5,710	$8,690

With all these trends running together, the Social Security system is, not surprisingly, in strong shape for the near term. But as the baby boomers begin to take their own turn at retirement, all these trends will be thrown into reverse. Today, there are 3.4 workers available to support each retiree. Accordingly, the per capita cost of providing old age benefits, while very high, is still bearable. Because of the baby boomers' exceptionally low fertility rates and increased life expectancy, however, there could well be fewer than two workers for each retiree by 2035.

The Predicament Of the Baby Boomers

How can the baby boomers avoid an impoverished old age without presenting an impossible encumbrance to their children? The essential predicament faced by most members of the generation is that they have inordinately great need to save for retirement but little ability to do so. The baby boomers will probably live longer in retirement than any previous generation in American history, yet they cannot prudently rely on receiving anywhere near the same level of benefits enjoyed by today's senior citizens.

Chart 2

Tax Rate for Young Families

Average tax rate for households headed by persons aged 25-34:

1960	1982
10%	23%

Higher taxes account for much of the downward mobility of the so-called "upwardly mobile" baby boomers, says author Longman.

In the meantime, most baby boomers are struggling to get by with lower real wages than their parents enjoyed at a similar time of life, while also paying much higher taxes and housing expenses. This leaves little left over for retirement savings, however paramount the need—for both individuals and for the generation as a whole—to build up capital and to invest in the future.

The prevailing "upwardly mobile" stereotype notwithstanding, most baby boomers are now in the grip of real downward mobility. According to Census Bureau data, 42% of all baby boomers earn less than $10,000 a year. Between 1973 and 1983, the real, after-tax income of households headed by a person 25-34 declined by nearly 19%. After adjusting for inflation, today's young families have slightly less disposable income than did their counterparts in the early 1960s, even though the labor force participation rate of young wives has more than doubled since then, from 29% to 62%.

One important cause of this downward mobility, which further underscores the need for baby boomers to increase their savings for retirement, is the dramatic increase in the cost of housing during the post-war era.

The already alarming rise in the incidence of poverty among today's children further increases the baby boomers' objective need to save for retirement. Since 1973, the poverty rate among Americans under 18 has increased by more than 50%. More than one out of five children are now living in poverty. Experts predict that a third of all American children will experience poverty sometime before reaching adulthood.

Poor children tend to grow up to be poor adults. Even if other members of the "baby-bust" generation do comparatively well, they will

The High Cost of Housing

Two-thirds of today's elderly own their own homes with the mortgage fully paid off. Many seniors have paid much less in mortgage payments over the years than their houses are now worth. Since 1950, the median price of existing homes has increased sevenfold (see Chart), while the general cost of living has increased only fourfold.

This happy circumstance allows many of today's senior citizens to convert the inflated equity in their homes into a substantial nest egg for retirement. But few of the baby boomers are likely to enjoy such an advantage in their later years. Between 1977 and 1983, the rate of homeownership among persons 25 to 34 declined from 41% to 34%.

Price of Housing

Median price of existing homes:

1950	1985
$10,050	$73,800

Yet even those young people who do manage to afford a house are unlikely to reap the windfalls of the previous generation of homeowners.

In the early 1950s, a young family with an income of $4,000 (the median income at the time) could purchase a house in Levittown for $7,990, paying $60 a month with no money down.

Today, for the privilege of living in the same house, a young couple must surrender as much as $90,000, or put $18,000 down and assume monthly mortgage payments of about $880—which will most likely rise with inflation. At prevailing interest rates, their total expenditure for the home will be $316,800 over the next 30 years. Yet when the house is finally paid off and the owners are ready to retire, it will only be worth what some member of the very small—and so far very poor—baby-bust generation will be able or willing to pay.

—Phillip Longman

still be responsible for supporting an expanding under-class within their own age group. This will leave fewer resources available to cover the enormous cost of providing even minimum retirement benefits for the baby-boom generation, as well as all other social needs.

For these and other reasons, the baby boomers' prospects for retirement lie not only with increased *financial* saving, but with "human capital" formation as well.

As the baby boomers, in their large numbers, move into retirement, the nation's per capita output of goods and services will decline, along with its standard of living, unless the next, very small generation of workers becomes correspondingly more efficient. To achieve this end requires, first, that we cease to borrow so much against the future earnings of today's children for the purpose of subsidizing current consumption, and, second, that we increase the savings rate.

Yet, no matter how large the pool of financial savings available for productive investment during the period of the baby boomers' retirement, if the next generation lacks the skills and knowledge to put it to good use, no one's interest will be served. Individual baby boomers may scrimp and save to build a nest egg for retirement, but their dollars won't go very far if their children, for lack of education, are unable to develop or use new technologies required to compete in the world economy of the next century.

What Must Be Done

Younger Americans must encourage government to institute reforms in their own and the nation's long-term interest. Policies that have worked well for today's elderly will fail the baby boomers and their children, who must plan against an entirely different set of economic and demographic circumstances.

The baby-boom generation is the first in American history to be larger than the one that follows. This by itself creates a need for the baby boomers to save more toward the cost of their retirement than did the present older generation. Moreover, unless we soon reduce the deficits, the few workers who will be available to support the baby boomers in old age will already be encumbered with enormous public debts and a declining standard of living.

In the meantime, baby boomers must pay an unprecedented share of their income to provide benefits to today's elderly—rich and poor alike. Unless we move toward equitable reform of Social Security and Medicare, this burden will make it all the more difficult for the baby boomers to save up against the near inevitability that these benefits will not be available to them when they retire.

Finally, the generation as a whole can't afford *not* to spend more of its income for the rigorous education of the young and for the repair and retooling of the nation's obsolete factories and sagging infrastructure. Like their Victorian forebears who built up America into a great industrial power, the baby boomers will have to rediscover an ethos of thrift and sacrifice for the future.

The oldest baby boomers are now but 23 years away from reaching current average age of retirement. The longer today's generations fail to reduce the deficits, increase savings, and invest in the future of the next generation, the more likely it is that the American future will consist of depression and a war between the young and old.

About the Author

Phillip Longman is research director at Americans for Generational Equity (P.O. Box 1505, Washington, D.C. 20013), a nonprofit organization committed to studying and promoting the long-term economic interests of younger Americans. He has published many articles on Social Security and related issues in such periodicals as *The Atlantic*, *Washington Monthly*, *Reader's Digest*, *Newsday*, and *Esquire*. He is currently working on a book for Houghton-Mifflin entitled *Justice Between Generations*.